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Programme budget for the biennium 2000-2001

Proposed programme budget for the biennium 2002-2003

Administrative expenses of the United Nations Joint Staff Pension Fund

Second report of the Advisory Committee on Administrative and Budgetary Questions on the proposed programme budget for the biennium 2002-2003

I. Introduction

1. The Advisory Committee on Administrative and Budgetary Questions has considered the report of the Standing Committee of the United Nations Joint Staff Pension Board on the administrative expenses of the United Nations Joint Staff Pension Fund (A/56/289). The Committee was also provided, as background information, with copies of documentation submitted to the Standing Committee on the framework for the longer-term vision and objectives of the Fund on the longer-term process re-engineering and computer needs of the Fund and on administrative expenses and enhancement of the Fund's Geneva office. During its consideration of the matter, the Committee met with the First Vice-Chairman of the Standing Committee, the Chief Executive Officer of the Fund and, with regard to investments of the Fund, with representatives of the Secretary-General.

2. The report of the Standing Committee of the United Nations Joint Staff Pension Fund is submitted pursuant to the decisions of the General Assembly contained in its resolution 46/220 of 20 December 1991. The report includes the revised estimates for the biennium 2000-2001, the budget proposal for the biennium 2002-2003 and a request for authorization for a contribution to the Emergency Fund for the biennium 2002-2003 (see A/56/289, paras. 15 and 18).

3. **The Advisory Committee believes that the presentation of the budget document is confusing and that, as previously requested by the Committee (see, for example, para. 3 of the second report of the Advisory Committee on the proposed programme budget for the biennium 2000-2001[1]), efforts should be made to streamline the report. In the Committee's opinion, in future, the report should be reorganized and made user-friendly.** For example, parts I (Overview), II (Expenses borne by the United Nations) and III (Expenses borne by the Fund) should be combined and shortened, providing a concise overview and summary of the estimates. Part IV (Revised budget estimates for the biennium 2000-2001) should be retained but should follow the format of the approved administrative, investment and audit costs of the Fund. Annex V (Discussions in the Standing

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Committee on upcoming projects having major budgetary implications) should be retained but should be shortened to contain a summary of decisions of the Pension Board or of its Standing Committee. Parts V (Budget estimates for the biennium 2002-2003) and VI (Programme of work for the biennium 2002-2003) and annexes I and II, which show in detail the proposed budget estimates, should be combined and presented using results-based budgeting techniques (see para. 5 below) and should make greater use of graphs, charts and tables.

4. The narratives in the main body of the document should also be more focused and concise. In general terms, information that is easily obtained from graphics should not be repeated in narratives. **The Committee also recommends that an effort be made to improve the transparency of the estimates** (for example, the total cost estimates related to the re-engineering project are not easily identifiable).

5. The Advisory Committee notes that to the extent possible, the document was prepared in the United Nations results-based budget format (see A/56/289, para. 14). **In this connection, the Committee draws attention to its comments in paragraphs 4 to 18 of its first report on the proposed programme budget for the biennium 2002-2003[2] on the format and presentation of the United Nations budget. While the budget of the Fund may be constructed on the basis of results-based budgeting techniques, the Committee cautions against artificially constructing a results-based budget for the Fund merely to comply with the format of the United Nations programme budget. The Committee emphasizes that the elements chosen by the Fund must be relevant and specific to its operations and requirements. The Committee notes that in most instances indicators of achievement are described in vague terms, without specifying the benchmarks in a given biennium against which such activity is to be measured, nor is a specific indication given of how much of an increase or improvement is expected against the benchmark in absolute terms or as a percentage. In the Committee's view, if it is not possible to formulate indicators of achievement in some activities of the Fund, such as investment operations, then there is no need to attempt to create them.**

II. Revised budget estimates for the biennium 2000-2001

6. The Standing Committee approved the submission to the General Assembly of the revised estimates for expenses chargeable to the Fund for the biennium 2000-2001 amounting to $59,202,200, representing a net reduction of $3,098,900, or about 5.0 per cent, as compared with the appropriation of $62,301,100 approved by the Assembly in its resolution 54/251 of 23 December 1999 (ibid., paras. 19-20).

7. Savings in the amount of $4,187,700 were realized under investment costs as a result of savings of $4,125,200 under advisory and custodial services and $62,500 under investment consultants (ibid., table 1 and para. 25). The Advisory Committee notes that the Standing Committee did not agree with the proposal of the Chief Executive Officer of the Fund to allocate $1,200,000 in the revised budget estimates for 2000-2001 for the purchase of a new investment accounting system (see ibid., annex IV, paras. 1 and 13). The Standing Committee decided instead to recommend at this juncture that $100,000 from the savings of $4,187,700 be allocated to cover the costs of a feasibility study to be carried out on developing the required new investment accounting system.

8. The Advisory Committee notes that the amount of $596,000 from the savings would be utilized to cover the costs of phase 1 of the re-engineering project, which began in 1999 (see ibid., para. 23, and para. 17 below). The Fund had estimated the resources necessary to support phase 1 of the re-engineering project at $980,000, and the United Nations Joint Staff Pension Board had requested the Fund's secretariat to proceed with the implementation of phase 1 of the project within existing resources to the extent possible.[3] The Committee was informed upon enquiry that the total cost of the work undertaken for phase 1 of the project was lower than anticipated because of the use of in-house resources and that the consultants had commenced work later than planned.

9. The Advisory Committee recalls that there has been a recurrent concern in the Pension Board regarding the level of advisory and custodial fees and the presentation of the fee structure (see, for example, para. 6 of its second report on the proposed programme budget for 2000-2001[1]). The Committee notes that the savings under contractual advisory services resulted

from new contractual arrangements for the custodian and master record keeper fees. The new fees are based on a flat dollar amount whereas the approved appropriations for 2000-2001 provided for fees based on the market value of the assets and on the volume of transactions, which were variable (A/56/289, para. 28 (c)). Regular advisory fees for advisers that do not have discretionary authority continue to be based on flat rates for the duration of the contracts, which will expire on 31 December 2001, while fees related to investment management in small capitalization funds continue to be linked to the market value of the assets. Investment advisers of the small capitalization accounts continue to have discretionary authority to purchase and sell securities. The Committee was informed that the 8 per cent increase in the market value of the small capitalization accounts of the Fund (ibid., para. 28 (b)), was based on conditions existing for more than a year as of the preparation of the estimate.

III. Proposed budget for the biennium 2002-2003

10. The proposed budget for the biennium 2002-2003 against the resources of the Fund (i.e., excluding the United Nations regular budget share of $10,767,100) amounts to $74,322,400, comprising administrative costs of $29,943,800, investment costs of $43,405,100 and audit costs of $973,500 (ibid., table 2 and annex I).

11. The Fund's post requirements for the biennium 2002-2003 for its administrative and investment operations are projected at 163 posts (158 established and 5 temporary), reflecting an increase of 14 posts (13 established and 1 temporary), as compared with 149 posts (145 established and 4 temporary) approved for the biennium 2000-2001 (ibid., table 3). All 14 additional posts (6 Professional and 8 General Service) are requested for the Fund's administrative operations, comprising two for the Office of the Chief Executive Officer, four for the Geneva office and eight for the Information Management Systems Section (ibid., annex II, tables II.5, II.13 and II.15).

12. The Advisory Committee was informed that the Fund was maturing, that is, that the ongoing benefit payments would continue to exceed the incoming contributions, a trend that started in 1994 and is growing. In 2000, the excess of ongoing benefit payments over incoming contributions reached $174.6 million, as compared with $11.2 million in 1995 (ibid., annex VII). **The Committee notes this development and trusts that the Committee of Actuaries will continue to monitor the evolution of the Fund. The Committee requests that all efforts be made to ensure that every element of the operation of the Fund, including the management of its assets and liabilities, is carried out, to the maximum extent possible, with due regard to efficiency and productivity.**

13. Under section 1, Overall policy-making, direction and coordination, the United Nations proposed programme budget for the biennium 2002-2003[4] includes provisions in the amount of $5,891,700 (before recosting) to cover the share of the United Nations regular budget in the expenses of the Pension Board and the central secretariat of the Pension Fund. In addition, under extrabudgetary resources, the United Nations proposed programme budget includes a provision in the amount of $2,723,000 to cover the share borne by extrabudgetary programmes (see ibid., para. 9, and A/56/6 (Sect. 1), table A.1.16). The Advisory Committee notes that the United Nations share in the budget proposed in the report of the Standing Committee amounts to $10,767,100 (see A/56/289, annex I, table I.3. Upon enquiry, the Committee was informed that the amounts included in the United Nations proposed programme budget for 2002-2003 would be subject to the cost-sharing implications for the United Nations of decisions taken by the General Assembly at its fifty-sixth session on the proposals of the Standing Committee in respect of the resources required by the Fund for the biennium.

14. The Advisory Committee notes that annex II to the report of the Standing Committee provides the details of the budget proposal of the Fund for the biennium 2002-2003 chargeable to the resources of the Fund, but excludes the share of the United Nations regular budget in the administrative expenses of the Fund. Upon enquiry, the Committee was informed that upon approval by the General Assembly of the proposed budget, the total expenses of the Fund would be allotted to the Fund's secretariat. **The Committee is of the opinion that the budget formulation should not be confused with the funding sources. The Committee stresses that the budget for the administrative expenses of the Fund should be formulated and justified on a full-cost basis (i.e.,**

including the share of total administrative expenses of the Fund covered by the United Nations regular budget). The United Nations regular budget portion should then be identified after such justification. The Committee requests that this procedure be followed in future budget presentations for the three major components of the Fund's operations, namely administrative, investment and audit costs.

15. Provisions for administrative costs for the biennium 2002-2003 are estimated at $29,943,800, reflecting an increase of $11,433,200 or 61.8 per cent, as compared with the appropriation of $18,510,600 for 2000-2001 (ibid., table 2). The large increase in the proposed administrative expenditures relates to the continuation of the Fund's re-engineering project.

16. The administrative costs component of the proposed budget ($29.9 million) represents approximately 0.27 per cent of the estimated total pensionable remuneration for the biennium 2002-2003. For the biennium 2000-2001, the corresponding percentage was approximately 0.24 per cent. The Advisory Committee recalls that this percentage has increased rapidly during last few bienniums and that it had urged the Fund's secretariat to monitor closely increases in those costs (see para. 10 of its second report on the proposed programme budget for 2000-2001[1]). The Committee recalls that, as recommended by the Committee of Actuaries in 1998, the administrative costs of the Fund will be included in the next actuarial valuation not as a fixed percentage of pensionable remuneration, but rather at the level of resources actually required for the administration of the Fund (see A/56/289, para. 35).

17. The objectives and activities of the re-engineering project are discussed in detail in the report to the Standing Committee on the study of longer-term process re-engineering and computer needs of the Fund conducted with the assistance of external consultants (see ibid., annex II, paras. 34-35 and annex V, paras. 8-13). The estimated costs of the project for the period 2002-2004 for hardware, software, development and training amount to $8,265,158. In addition, it is estimated that $1,469,714 would be required annually to cover maintenance costs (see ibid., table II.16).

18. Under the re-engineering project, five "infrastructure enhancement projects" and three "future direction projects" have been proposed for implementation in 2002-2003 in accordance with the delivery timelines shown in the report of the Standing Committee (ibid., annex II, table II.17). The costs for the biennium 2002-2003 have been prorated according to the delivery timeline schedule and amount to $7,028,378 for hardware and software, development and training, with the balance of $1,236,780 to be requested for appropriation in the biennium 2004-2005. For maintenance, it is estimated that during the biennium 2002-2003, only the cost of one year's maintenance would be required, amounting to $702,959. Thus, the provision for the re-engineering project for 2002-2003 amounts to $7,731,337 (ibid., annex II, paras. 37-39 and table II.18). The Committee points out that those costs do not include the provision for project staff and temporary assistance personnel (e.g., the 48 work-months of General Service temporary assistance requested in annex II, para. 2) and the other general operating expenses to be incurred during project implementation, such as additional office space to accommodate increases in hardware, consulting services and staff.

19. The Advisory Committee notes that the provision for contractual services is estimated at $6,335,800 for the biennium 2002-2003, of which $3,526,200 relates to development contracts under the re-engineering project. Upon enquiry, the Committee was informed that the Fund planned to contract out the entire development work of the re-engineering project, estimated at $4,763,000 for the period from 2002 to 2004 (see ibid., annex II, para. 28 and table II.16). **The Committee trusts that care will be taken to ensure proper contract management and recommends that a penalty clause be included in the terms of the contract on the scheduled delivery. The Committee also recommends that an effective mechanism be in place to evaluate performance and that payments to vendors be subject to verification of the quality of the products delivered.**

20. The Advisory Committee sought clarification of the estimates prepared by the consultants for the five infrastructure enhancement and three future direction projects shown in annex I to the report to the Standing Committee on process re-engineering and computer needs and the reasons for the reductions proposed by the Fund (see also ibid., annex II, table II.16). The Committee was informed that the consultants had estimated the total cost of the eight projects at $11,692,570 and that the lower estimate prepared by the Fund of $8,265,158 for the period 2002-2004 was

based on the Fund's assessment of internal capacity and of alternative means of obtaining a number of materials and services at lower prices.

21. **The Advisory Committee is concerned with the apparent lack of transparency in disclosing the total cost of the re-engineering project and is of the opinion that the proposed delivery timeline schedule for the project appears overly ambitious. As indicated in paragraph 8 above, phase 1 of the project was delayed in its implementation. The Committee's experience with information technology budgets in United Nations secretariats indicates that there is a noticeable tendency to underestimate the costs of such projects, which often show large cost overruns due largely to extensive delays in their implementation.**

22. The Advisory Committee notes a statement in the report to the Standing Committee on the process re-engineering and computer needs of the Fund indicating that the consultants had identified opportunities for future costs savings and determined that productivity savings would not be possible in the biennium 2002-2003. It was the shared view of the Fund and the consultants that the technology-based initiatives recommended would not provide immediate savings, but would reduce future costs. It was also understood that after successful implementation of the projects, the Fund would be able to accommodate increased transaction volumes with greater efficiency and timeliness, mitigating the need to add additional staff in the future. **The Committee requests that in the next budget submission the Fund identify concrete efficiency gains that would be obtained as a result of the implementation of the project.**

23. Eight additional posts are requested for 2002-2003 for the Fund's Information Management Systems Section (ibid., annex II, paras. 23-27). Five new posts are requested as established posts and three as temporary posts. They would provide support for core information technology functions that relate to ongoing maintenance, project management, technology research, contract administration, help desk support and production control activities. **The Advisory Committee questions this approach and believes that the most appropriate course to follow would be to dedicate a certain level of staff resources to the project and, once the project is completed, it could then be decided which of the posts would be retained on a permanent basis as established posts. The Committee therefore recommends that the eight new posts be established for the re-engineering project on a temporary basis.**

24. The Advisory Committee notes a statement in the report to the Standing Committee on process re-engineering and computer needs indicating that once the proper information technology management structure was in place, project steering committees would also be established to oversee the status of each project and to resolve related issues. Those committees would be composed of representatives from member organizations, selected staff from the Fund's operations in New York and Geneva and information technology staff responsible for the delivery of the project. The Committee was informed that there would be three levels of internal secretariat oversight. **The Committee cautions against too many committees and too many participants. In its view, committees and participants should be limited to the minimum number essential for coherent and effective leadership and proper accountability.**

25. The re-engineering project includes a provision for training totalling $270,200 for 2002-2003. No provision is foreseen for 2004 (ibid., annex II, tables II.16 and II.18). **The Advisory Committee stresses the importance of adequate training to ensure the effective implementation and operation of the new information technology environment for the Fund. The Committee trusts that the training will be carefully synchronized and coordinated with the implementation of each infrastructure enhancement and future direction project.**

26. For the Fund's headquarters office in New York, an amount of $1,389,200 is proposed under administrative costs to cover the costs of rental of premises, alterations and improvements to the computer room and new office space. In addition, under investment costs, an amount of $443,500 is requested for the rental of premises occupied by the Investment Management Service at Headquarters. The Fund currently occupies 26,061 square feet (18,850 square feet for its secretariat and 7,211 square feet for the Investment Management Service) in the United Nations Secretariat Building in New York and proposes an additional 1,962 square feet for the biennium 2002-2003 to accommodate the expansion of the computer room and the proposed additional staff. For the Fund's Geneva office, an amount of $186,100 is requested for 2002-2003 for the rental of 382.3 square metres made

available by the United Nations (ibid., annex II, paras. 6-8, 20 and 45, and para. 17 of the second report of the Advisory Committee on the proposed programme budget for 2000-2001[1]).

27. The Advisory Committee was informed that the proposed additional space would provide a short-term solution to the space problems of the Fund. The Committee notes that the Standing Committee has suggested that the Fund look into the possibility of acquiring premises outside of the United Nations for the Fund secretariat, including relocation options for back-office processing, and report to the Pension Board on this matter at its next session (A/56/289, annex IV.B, paras. 26 (h) and 27). **The Committee requests that the procedure outlined in resolution 53/210 of 18 December 1998 be followed and that it be apprised in the first instance when a firm determination is made that additional space would have to be acquired.**

28. Provisions for travel for 2002-2003 amount to $1,344,900 ($266,600 under administrative costs at Headquarters, $20,300 under the Geneva office and $1,058,000 under investment costs), reflecting an increase of 24.5 per cent as compared with approved appropriations for travel in 2000-2001 of $1,080,600 ($210,100 under administrative costs at Headquarters and $870,500 under investment costs) (ibid., annex II, tables II.4, II.12 and II.24). The Advisory Committee notes that the provision in paragraph 3 of annex II would cover, inter alia, the periodic travel of Headquarters staff to Geneva and the Geneva staff to Headquarters. **The Committee is not convinced that the increase in the provisions for travel is fully warranted and believes that some economies may be possible. In this connection, the Committee encourages more use of the videoconferencing facilities between New York and Geneva and other major duty stations. Moreover, the Committee notes that the provision for the travel of staff of the Geneva office would be required to respond to demands for local training, primarily in field offices in the African and Middle Eastern regions (ibid., annex II, para. 18). The Committee recognizes the importance of this activity; however, it is of the view that these local training activities should, to the extent possible, be reimbursed by the member organizations that requested the services.**

29. The Advisory Committee notes the progress achieved in the phased enhancement of the role of the Fund's office in Geneva (see ibid., annex V, sect. C). For the biennium 2002-2003, provisions are included for 21 posts (5 Professional and 16 General Service), reflecting 4 additional General Service posts and the conversion of 2 posts (1 P-4 and 1 General Service) from temporary to established status (ibid., annex II, para. 14). **The Committee has no objection to this proposal, but it expects that as more functions are performed in Geneva there should be savings in the performance of related work hitherto performed at Headquarters.**

30. For the biennium 2002-2003, audit costs (both internal and external) of the administrative and investment operations of the Fund borne by the Fund itself are estimated at $973,500 ($354,400 for external audit and $619,100 for internal audit) (ibid., annex II, table II.33). Upon request, the Advisory Committee was informed that, taking into account that one third of the audit costs of the Fund's administrative operations was borne by the United Nations under the cost-sharing arrangement, the total audit cost for 2002-2003, including the United Nations share, would amount to $1,168,200 ($425,300 for external audit and $742,900 for internal audit), as compared with total audit costs in 2000-2001 of $957,300 ($406,400 for external audit and $550,900 for internal audit). The Committee recalls that the Office of Internal Oversight Services had underestimated the complexity of some of the activities of the Fund's operations in the 1999 work plan, including those related to investment management, actuarial services and contract services. In this connection, the Committee requested that the Office of Internal Oversight Services redouble its efforts to complete its work programme in a timely manner and, as it may deem necessary, request staffing resources commensurate with the responsibilities to be carried out (see A/55/481, para. 14). The Committee notes that the internal audit requirements for 2002-2003 were discussed by the Fund and the Office of Internal Oversight Services (see A/56/289, annex II, para. 61). Accordingly, the resources requested for 2002-2003 take into account the wide scope and complexity of the proposed internal audits during the biennium so that the work programme would be carried out effectively and in conformity with accepted professional auditing standards. The Committee was provided with a detailed cost breakdown of internal audit costs proposed for 2002-2003 (see annex).

31. **The Advisory Committee recommends that the revised estimates for the biennium 2000-2001 and the proposed appropriation for the biennium 2002-2003 be approved for the administrative expenses of the Fund, as submitted by the Standing Committee, in the amounts of $59,202,200 and $74,322,400 respectively. Furthermore, the Committee has no objection to the proposal by the Standing Committee to supplement the voluntary contributions to the Emergency Fund by an amount not exceeding $200,000 for the biennium 2002-2003 (see A/56/289, paras. 81-84).**

Notes

[1] *Official Records of the General Assembly, Fifty-fourth Session, Supplement No. 7A* (A/54/7/Add.1-14), document A/54/7/Add.1.

[2] *Official Records of the General Assembly, Fifty-sixth Session, Supplement No. 7* (A/56/7).

[3] See ibid., *Fifty-fifth Session, Supplement No. 9* (A/55/9), paras. 138 and 146.

[4] The proposed programme budget for the biennium 2002-2003 is contained in documents A/56/6 (Introduction), A/56/6 (Sects. 1-33), A/56/6 (Income sects. 1-3) and A/56/6/Corr.1.

Annex

Audit costs for the biennium 2002-2003

(Thousands of United States dollars)

Summary of audit costs

Object of expenditure	*1998-1999 expenditure*	*2000-2001 appropriation*	*Resource growth*		*Total before recosting*	*Recosting*	*2002-2003 estimate*		
			Amount	*Percentage*			*Pension fund share (83.33%)*	*United Nations share (16.67%)*	*Gross*
External audit	164.0	338.6	4.9	1.4	343.5	10.9	354.4	70.9	425.3
Internal audit	367.8	459.2	92.2	19.0	551.4	67.7	619.1	123.8	742.9
Total	**531.8**	**797.8**	**97.1**	**11.7**	**894.9**	**78.6**	**973.5**	**194.7**	**1 168.2**

Internal audit costs at Headquarters

	No. of posts	*Salaries*	*Common staff costs*	*Subtotal*
Existing posts				
P-4	1	188.4	73.7	262.1
P-3	1	156.9	61.3	218.2
General Service (Other level)	1	85.6	33.6	119.2
Subtotal	**3**	**430.9**	**168.6**	**599.5**
Reclassifications (1 P-4 to P-5 and 1 P-3 to P-4)[a]				
P-5	1	217.5	85.1	302.6
P-4	1	(188.4)	(73.7)	(262.1)
Net cost		**29.1**	**11.4**	**40.5**
P-4	1	188.4	73.7	262.1
P-3	1	(156.9)	(61.3)	(218.2)
Net cost		**31.5**	**12.4**	**43.9**
Total cost of reclassifications		**60.6**	**23.8**	**84.4**
Total cost		**491.5**	**192.4**	**683.9**

	No. of posts	*Salaries*	*Common staff costs*	*Subtotal*
Other costs (OIOS request)				
Training		3.0	0.1	23.1
Travel		25.0	0.7	25.7
Contractual services		25.0	0.7	25.7
Equipment		4.5	0.1	4.6
Total other costs		**57.5**	**1.6**	**59.1**
Total, internal audit		**549.0**	**193.9**	**742.9**
Pension Fund share (83.33%)				619.1
United Nations share (16.67%)[b]				123.8
Gross (100%)				742.9

External audit costs

Pension Fund share (83.33%)	354.4
United Nations share (16.67%)[c]	70.9
Gross (100%)	425.3

[a] It was agreed to provide resources to the Office of Internal Oversight Services equivalent to 1 P-5, 1 P-4 and 1 General Service (Other level), leaving to OIOS the determination as to how to use those resources in the biennium 2002-2003.

[b] To be distributed as follows: United Nations regular budget: $74,900; extrabudgetary (UNDP, UNICEF, UNFPA): $48,900; total: $123,800.

[c] To be distributed as follows: United Nations regular budget: $59,100; extrabudgetary (UNDP, UNICEF, UNFPA): $11,800; total: $70,900.